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STATE FOR WHA/BSC-LCATO, WHA/EPSC-FCORNEILLE, EEB/TRA/OTP, AND
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TREASURY FOR MATT MALLOY

SENSITIVE

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SUBJECT: CHILE'S TRANSANTIAGO: IN STORMY WATERS

1. (SBU) SUMMARY: Treasury A/S Lowery, DAS O'Neill, and Ambassador Simons received a readout on Transantiago from Transportation Minister Cortazar and Finance Minister Velasco September 1. The public transport system is a thorn in the side of the Bachelet Administration, and its woes have increased in recent days. On September 2, the Constitutional Tribunal declared unconstitutional the GOC's guarantee of two loans to Transantiago (one from the Inter-American Development Bank). The IDB reportedly considers this an event of default, and a Vice President was in Santiago, September 3-4, to discuss next steps. The GOC declared, September 4, it will use emergency powers to cover Transantiago's costs and will try to pass a law allowing it to subsidize the system. The opposition is taking full advantage of the GOC's latest embarrassment. Former top Aylwin minister, Enrique Correa told Ambassador Simons the GOC had to work with the opposition to restructure the system. Transantiago is "in stormy waters," which may prove costly for the Concertacion.
END SUMMARY.

A System Plagued with Problems

2. (U) Transantiago was supposed to be a state-of-the-art transportation system, replacing the city's old network of competing buses. It was designed by the Lagos Administration and implemented by the Bachelet Administration. Since the system's introduction, the public has criticized overcrowding, increased wait and transit times, and general lack of functionality. Transantiago is running an operating deficit due to fixed fares and rampant fare evasion, expensive technology, and rising fuel prices. The GOC proposed a law that would subsidize the system to cover the cost increases. The draft law passed in Congress' lower house by one vote, and is pending in the upper house.

3. (U) To cover the system's deficit, the GOC arranged and guaranteed two loans to Transantiago: \$10 million from state-owned Banco Estado and \$400 million from the IDB. The Controller General (which assesses the legality of government policies) approved the loans. However, the Constitutional Tribunal's verdict (which it will explain in detail in the coming weeks) effectively cancels the loans, meaning the GOC will probably have to repay them. The GOC has decided to use discretionary funds equivalent to 2% of the budget (estimated at \$800 million) set aside by the Constitution in the event of a national emergency. The decision is likely intended to: cover Transantiago's operating costs in the near term, give the GOC breathing room to make arrangements on the loan repayments, and negotiate an agreement with the opposition to fund Transantiago.

Transantiago Works But It's A Political Football

4. (SBU) Transportation Minister Cortazar and Finance Minister

Velasco reviewed GOC thinking on Transantiago in separate meetings, September 1, with Treasury A/S Lowery, DAS O'Neill, and Ambassador Simons. Cortazar and Velasco were surprised by the rumored adverse verdict from the Tribunal. Both ministers admitted Transantiago's design had been flawed, but cited data that showed waiting times were down, transit times had decreased, and new filters had drastically reduced bus pollution. Given time, they believed the GOC could fix the system.

15. (SBU) Cortazar acknowledged the public held a dismal view of Transantiago. (Note: A recent poll found 63% of those surveyed wanted a complete overhaul of the system. End note.) Velasco said Transantiago was a "political football," and noted the opposition was calling for it to be rebuilt from the ground up and scoring many political points in the process. According to Velasco, likely presidential candidate, Senator Sebastian Pinera (Renovacion Nacional), was trying to be "the man of the hour" by pushing the GOC to accept his plan to reform Transantiago. Cortazar complained the opposition was eager for the Government to use the 2% emergency funds (used mostly in response to floods in the past), because they could further embarrass the GOC by calling Transantiago a national disaster. Even former President Eduardo Frei issued his own plan to fix the system.

The Key Will Be Financing the System

16. (SBU) Ministers Cortazar and Velasco both acknowledged Transantiago was operating at a loss because of inflation, high oil prices, and keeping fares at a fixed level until improvements to the system were complete. Both were also firmly convinced of the constitutionality of the loan guarantees to Banco Estado and the IDB, but confirmed the GOC would abide by the Tribunal's decision. Cortazar explained that IDB had released three tranches of its loan already, but further disbursements were unlikely now. The GOC had given the IDB a comfort letter, declaring its commitment to use all means at its disposal to ensure repayment of the loan, and both Cortazar and Velasco stood by this commitment.

17. (SBU) In the event the loan guarantees were found unconstitutional, Cortazar and Velasco thought it unwise for the IDB to accelerate the loan (i.e., ask for immediate repayment including principal and interest). Minister Velasco emphasized that if the GOC were forced to repay the IDB, the key would be arranging an "orderly unwinding" of the loan to avoid precipitous measures. He said there was no question the GOC would live up to its commitment, but it was critical to balance the financial concerns of the IDB with those of the GOC. IDB VP Puig was in Santiago September 3-4 to discuss next steps with the GOC. Though no results from his meetings were released, the IDB reportedly considered the Tribunal's decision an event of default, which could lead to acceleration of the loan.

Enrique Correa: Fundamental Change is Necessary

18. (SBU) In a September 2 meeting with Ambassador Simons, Enrique Correa, a former top minister in the Aylwin Administration, opined that the GOC remains in denial over the poor performance of Transantiago. Minister Cortazar is only tinkering around the edges of the system, rather than instituting the necessary fundamental changes. Former President Lagos' efforts to avoid responsibility will not wash with public opinion and will only anger the Bachelet Administration. Lagos needs to apologize and take some of the blame. Correa underlined that the Concertacion must come to a political agreement with the opposition to restructure the system. It is not in the opposition's interest to grind the country to a halt over the issue as Chilean voters will not be comfortable with this degree of controversy. A restructured system could hopefully be achieved before the 2009 presidential election. Despite low poll numbers, the Concertacion was still well placed for the 2009 balloting, but continuing inflation and Transantiago could prove to be major stumbling blocks.

Transantiago Is Hurting the Concertacion

19. (SBU). COMMENT: Minister Cortazar aptly noted that Transantiago

is currently "in stormy waters." The GOC is scrambling to ensure public transportation continues to function and it meets its IDB and Banco Estado commitments. However, the damage is done. The Constitutional Tribunal's decision has made Transantiago a political disaster for the GOC and the Concertacion. The Government will likely have to negotiate with the opposition to find a new way to fund Transantiago, which will involve some restructuring of the system. The opposition will continue to ride this issue all the way through the municipal elections, at some considerable cost, financially for the GOC, and politically for the Concertacion.

SIMONS